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Responsiveness : a new dimension of
value-for-money audit and an avenue of
integration with attest and authority
audit.

(Discussion paper no. 17)



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Office of the
Auditor General
of Canada



Bureau du
vérificateur général
du Canada

DISCUSSION PAPER NO. 17
RESPONSIVENESS: A NEW DIMENSION OF
VALUE-FOR-MONEY AUDIT AND AN AVENUE
OF INTEGRATION WITH ATTEST
AND AUTHORITY AUDIT

by Arshad A. Toor

JUNE 1983

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Introduction

In the dynamic environments of today, it is quite common to see organizations which have failed to identify the changing needs of their clientele and to respond to those needs in time. In the private sector, the result of such failure is loss of business to competitors. In the public sector, the result is continuance of obsolete programs and unproductive expenditures at taxpayers' expense. If the audit can identify and point out such failures to its clients in time, it will be rendering a very useful service. But how should the audit be used to do this?

In trying to find an answer to this question, I have put together some suggestions which not only bring out a new dimension of the value-for-money audit but also provide an important avenue of integration with the attest and authority audit. The purpose of this paper is to present these suggestions.

The new dimension of the value-for-money audit could be called the "responsiveness audit". In the following paragraphs, I shall give (i) a definition of responsiveness, (ii) a methodology for responsiveness audit and (iii) an approach for integration of the VFM with attest and authority audit.

Responsiveness defined

Responsiveness is the extent to which an entity:

- perceives the changes in the demands placed on it as a result of the changes in its economic, political, social and technological environments and;
- adopts the most appropriate strategies on the basis of its strengths and weaknesses to satisfy those demands and to achieve its objectives.

Methodology for responsiveness audit

The responsiveness audit will consist of two parts; the first relates to data collection and the second to evaluation.

Data Collection

This part of the audit will consist of the following:

- i) Identification of external environments and internal conditions of the audited organization.

This will be done by carrying out a four-factor analysis commonly known as the WOTS-UP analysis. WOTS-UP is an acronym for weaknesses, opportunities, threats and strengths. The WOTS-UP analysis is performed as follows:

- Collect a set of key facts about the external and internal factors affecting the performance of the audited organization. The external factors will consist of the current situation and future trends in the economic, political, social and technological environments of the organization. These factors will include the changes in the needs of clients, emergence of competitors and technological innovations. Internal factors will be the organization's financial and human resources, technical competence, management controls and facilities.
- Evaluate each external fact to determine whether it represents an opportunity or a threat to the audited organization. This may be done by assessing the impact of the external facts on the demands placed on the organization. An increase in the demands will represent a potential opportunity (calling for growth). A decrease or extinction of demand will represent a potential threat (calling for curtailment of certain activities).
- Evaluate each internal fact to determine whether it constitutes a strength or a weakness of the audited organization.

ii) Identification of audited organization's main activities and strategies

The activities comprise current programs and operations. The strategies are reflected by both current policies and priorities and by future plans. The activities and strategies can be identified by looking at the organization's budgets and plans.

iii) Identification of audited organization's objectives

These may be identified by reviewing the related legislation and planning documents. Discussions with senior management will also be helpful in clarifying the objectives.

Evaluation

This will consist of examining the following aspects of the audited organization to determine if they are mutually consistent:

- environmental opportunities and threats
- activities and strategies
- internal strengths and weaknesses and
- objectives.

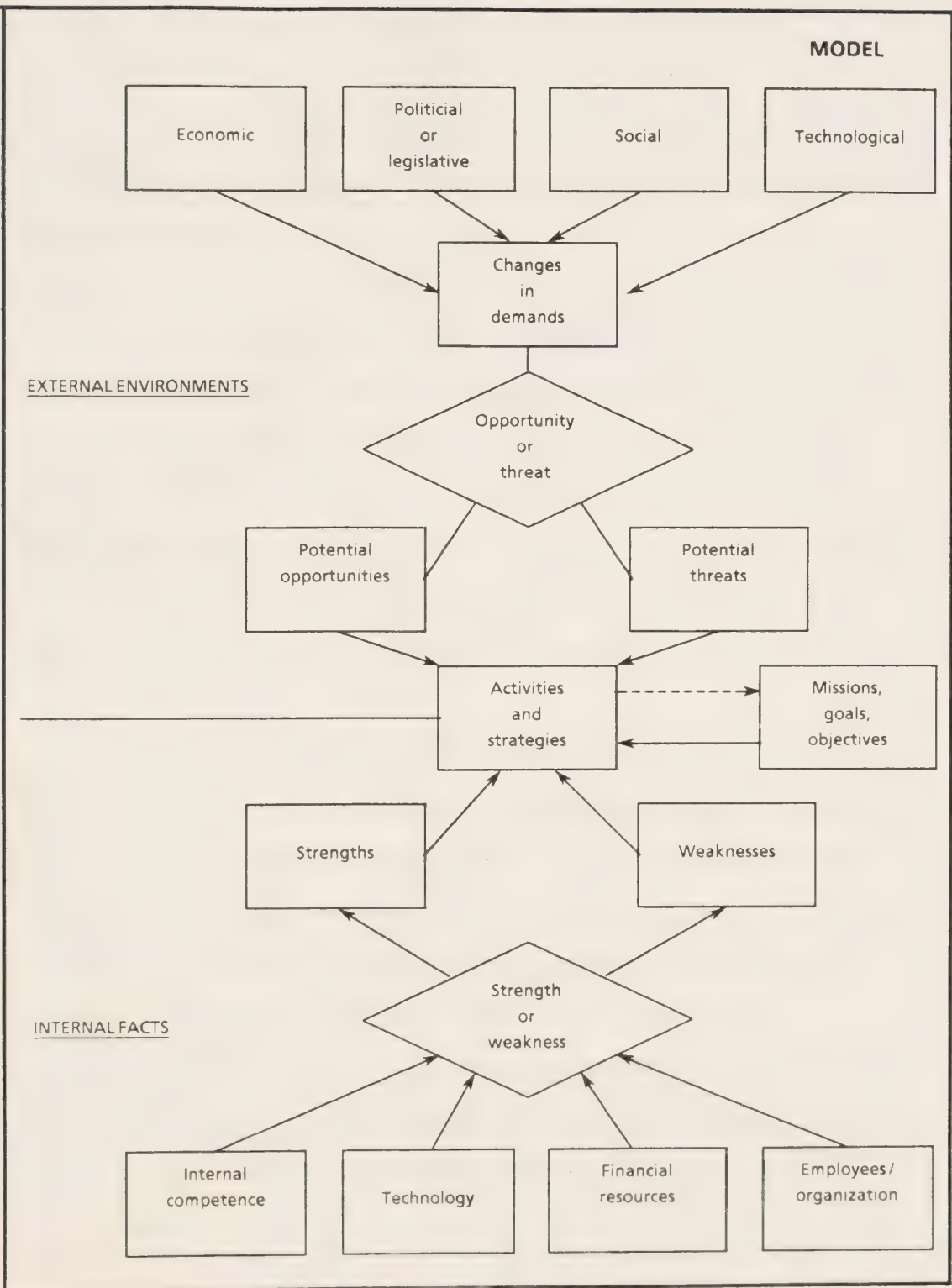
A mismatch between the environmental opportunities and threats and the activities and strategies will indicate the need for a review of the activities and strategies.¹

¹ To determine the appropriate strategies in a given environment, sophisticated techniques have been developed for private sector firms operating for profit. Significant among such techniques are the Boston Consulting Group (BCG) competitive portfolio analysis and the Strategic Position and Action Evaluation (SPACE). The description of these techniques is beyond the scope of this paper. However, interested readers may refer to "Strategic Management and Business Policy" by Rowe, Mason and Dickel.

A mismatch between the environmental opportunities and threats and the internal strengths and weaknesses will indicate the need to develop appropriate strengths and rectify the weaknesses.

A mismatch between the activities and strategies and the internal strengths and weaknesses will indicate the need either to review the activities and strategies or to develop internal competence.

The above matching might also reveal possible inconsistency between some of the objectives set by the management, the external environment and internal facts. In that case, the auditor can advise management to review and, if necessary, to reset the objectives themselves.



Integration with Attest and Authority Audit

Unless the client specially requests a VFM audit, it will be more efficient to integrate the responsiveness audit with the attest and authority audit for the following reasons.

The primary purpose of the responsiveness audit is to enable the auditor to identify areas of mismatch between an organization's environment and the other factors discussed under Evaluation. The audit is likely to be most obviously beneficial and cost effective where there is such a mismatch and a demonstrable potential for improvement. Therefore this audit should ideally be carried out where the auditor has some indication of the existence of a mismatch. This can be obtained during the attest and authority audit.

Some time during the attest and authority audit, an auditor might, for example, find that a program was originally introduced to meet certain public needs and that the authority for the program was subject to the fulfilment of certain conditions. Over time, the needs may have changed and the conditions under which the authority was given no longer exist. However, the program continues. The auditor can identify this program as a candidate for responsiveness audit according to the methodology suggested above. In terms of the Auditor General Act, this will enable the work done under Section 6 to be integrated with that required to meet the reporting requirements under Section 7(2) of the Act.

To quote a specific example, the author has recently come across a case during the attest audit of the Department of Finance where the needs and conditions for certain activities of the Department ceased to exist in 1974. The activities, however, still continue today because there has been no review of the related legislation. This is causing the government recurring administrative costs and loss of interest on public funds.

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